

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Commonwealth Edison Company,)	
Proposal to establish Rider POU)	
(Purchase of Uncollectibles) and to other related)	Docket No. 11-0435
tariffs.)	

Direct Testimony of
ROBERT GARCIA
Manager, Regulatory Strategies and Solutions
Commonwealth Edison Company

August 15, 2011

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1 **I. Introduction and Purpose**

2 **A. Identification of Witness**

3 **Q.** What is your name and business address?

4 **A.** Robert Garcia, Commonwealth Edison Company (“ComEd” or “Company”), 440 South
5 LaSalle Street, Suite 3300, Chicago, Illinois 60605.

6 **Q.** By whom are you employed and in what capacity?

7 **A.** I am employed by ComEd as its Manager, Regulatory Strategies and Solutions.

8 **B. Purposes of Testimony**

9 **Q.** What are the purposes of your direct testimony?

10 **A.** The purposes of my direct testimony are to:

- 11 (1) Explain the basis for the proposed two-part discount rate set forth in Rider POU -
12 Purchase of Uncollectibles (“Rider POU”);
13
14 (2) Address key terms and conditions set forth in proposed Rider POU and the
15 proposed revisions to General Terms and Conditions and;
16
17 (3) Address ComEd’s general approach to implementation of this new service.
18
19

20 **C. Summary of Conclusions**

21 **Q.** What conclusions are reached in ComEd’s direct testimony?

22 **A.** New Rider POU and the proposed changes to ComEd’s General Terms and Conditions,
23 which provide for ComEd’s purchase of uncollectibles from RESs for the electric power
24 and energy supply service provided by such Retail Electric Suppliers (“RESs”) to retail
25 customers and for the recovery of the costs ComEd incurs in providing service under
26 Rider POU, are just and reasonable and should be approved.

27 **D. Identification of Exhibits**

28 **Q.** What exhibits are attached to and incorporated in your direct testimony?

A. The following exhibits are attached to and incorporated in my direct testimony:

Exhibit 1.1 – Tariff sheets reflecting new Rider POU tariff sheets and proposed revisions
to General Terms and Conditions

Exhibit 1.2 – Rider POU Fee Work paper

Exhibit 1.3 – Rider POU timeline

Exhibit 1.4 – Example of Rider POU treatment

II. Background and Experience

Q. What are your duties and responsibilities in your current position?

A. I have served in my current position since March 2008. I am responsible for managing the activities of the Regulatory Strategies and Solutions Department of ComEd. My department is responsible for the analysis and development of strategic policy for ComEd's distribution business. These responsibilities give me a central role in the development of many of ComEd's new tariffs.

Q. What is your educational background and professional experience?

A. I have an *Artium Baccalaureus* (or Bachelor of Arts) degree in both Political Science and French from Wabash College (Crawfordsville, IN) and a Master of Public Administration degree from the School of Public and Environmental Affairs at Indiana University (Bloomington, IN) with concentrations in Policy (Quantitative) Analysis and International Affairs. I also obtained a Certificat De Langue Et Civilisation Française from the Université de Paris – Sorbonne (Paris, France) and, as part of my graduate work, studied French and European government at the École Nationale D'Administration (Paris, France).

I have been employed by ComEd since April 2001. I began my employment with ComEd in the Regulatory Department as a Regulatory Specialist and moved on to the position of Senior Regulatory Specialist before obtaining my current position.

Prior to joining ComEd, I worked for nearly nine years at the Illinois Commerce Commission (“Commission”), beginning in 1992 as an intern in the then Office of Policy and Planning in the Springfield office and ending in 2001 as the senior policy advisor to a Commissioner in the Chicago office. I initially joined the Commission Staff through the James H. Dunn Memorial Fellowship program, a one-year program sponsored by the Office of the Governor. Through this Fellowship, I also held short-term positions in the Bureau of the Budget and the Governor’s Legislative Affairs Office

Q. Have you previously testified before the Commission?

A. Yes. I have testified in support of ComEd’s petition for approval of its on-bill financing program (Docket No. 10-0091); ComEd’s proposed tariff provisions for the purchase of receivables with consolidated billing (Docket No. 10-0138); ComEd’s most recent general rate case (Docket No. 10-0467); and most recently, in ComEd’s proceeding to determine the applicability of Section 16-125(e) Public Utilities Act (“PUA” or “Act”) to events caused by the storms experienced on July 23, 2010 (Docket 11-0289). In addition, I have testified on behalf of Staff in Docket No. 94-0094, a rulemaking proceeding concerning Parts 415 and 425 of the Commission’s rules.

III. Overview of Tariff Filing

Q. What is the purpose of ComEd’s filing of Rider POU and related tariffs?

73 A. The primary purpose of ComEd's filing is to implement Section 16-118(c) of the PUA,
74 which provides as follows:

75 An electric utility with more than 100,000 customers in this State shall file a tariff
76 pursuant to Article IX of this Act that provides alternative retail electric suppliers,
77 and electric utilities other than the electric utility in whose service area the retail
78 customers are located, with the option to have the electric utility purchase 2
79 billing cycles worth of uncollectible receivables for power and energy service
80 provided to residential retail customers and to non-residential retail customers
81 with a non-coincident peak demand of less than 400 kilowatts upon returning that
82 customer to that electric utility for delivery and energy service after that
83 alternative retail electric supplier, or an electric utility other than the electric
84 utility in whose service area the retail customer is located, has made reasonable
85 collection efforts on that account. Uncollectible receivables for power and energy
86 service of alternative retail electric suppliers, or electric utilities other than the
87 electric utility in whose service area the retail customers are located, shall be
88 purchased by the electric utility at a just and reasonable discount rate to be
89 reviewed and approved by the Commission, after notice and hearing. The
90 discount rate shall be based on the electric utility's historical bad debt for
91 receivables that are outstanding for a similar length of time and any reasonable
92 start-up costs and administrative costs associated with the electric utility's
93 purchase of receivables. The discounted rate for purchase of uncollectible
94 receivables shall be included in the tariff filed pursuant to this subsection (e). The
95 electric utility retains the right to impose the same terms on these retail customers
96 with respect to credit and collection, including requests for deposits, and retains
97 the right to disconnect these retail customers, if it does not receive payment for its
98 tariffed services or purchased receivables, in the same manner that it would be
99 permitted to if the retail customers had purchased power and energy from the
100 electric utility. The tariff filed pursuant to this subsection (e) shall permit the
101 electric utility to recover from retail customers any uncollectable receivables that
102 may arise as a result of the purchase of uncollectible receivables under this
103 subsection (e), may also include other just and reasonable terms and conditions,
104 and shall provide for the prudently incurred costs associated with the provision of
105 this service pursuant to this subsection (e). Nothing in this subsection (e) permits
106 the double recovery of utility bad debt expenses from customers. The electric
107 utility may file a joint tariff for this subsection (e) and subsection (c) of this
108 Section.
109

110 (220 ILCS 5/16-118(e))(emphasis added). In other words, the statute requires ComEd to
111 provide a new tariffed service whereby a RES may, at its option, sell to ComEd
112 uncollectible receivables for power and energy service for certain of its customers at a

discount rate, which is based on both the costs the utility incurs in setting up and administering the program and its historic bad debt risk.

Q. What new tariffs and tariff revisions has ComEd proposed?

A. As required by Section 16-118(e) of the PUA, ComEd has filed a new rider, Rider POU, which includes the provisions under which ComEd purchases uncollectible receivables from RESs for the electric power and energy service provided by such RESs to certain retail customers and provides for the recovery of the costs ComEd incurs in providing service under Rider POU. As described in more detail later in this testimony, proposed tariff revisions to General Terms and Conditions are also necessary to implement Section 16-118(e) of the PUA.

A. Purpose and Applicability

Q. What is the purpose of Rider POU?

A. As stated in the Purpose section of Rider POU (ComEd Ex. 1.1, Sheet No. 412), the rider is designed to provide a collection service offering to RESs:

The purpose of this rider is to allow a RES the option to have the Company purchase up to two (2) monthly billing periods worth of such RES's uncollectible receivables for the electric power and energy supply service provided by such RES to a residential retail customer or other retail customer that establishes demands for electricity that are less than four hundred kilowatts (400 kW) in accordance with Section 16-118(e) of the Public Utilities Act (Act).

Put simply, Rider POU provides the terms by which ComEd purchases uncollectible receivables from RESs and then reflects those charges on customers' bills whose uncollectible receivables have been purchased by ComEd. Rider POU also sets forth the terms and conditions of such service (*see* ComEd Ex. 1.1, Sheet Nos. 413-415).

Rider POU establishes the discount rate and establishes a rate mechanism that provides for the allocation and recovery of the administrative costs that ComEd will incur to provide service under the rider. The primary purpose of this testimony is to describe and support the discount rate, cost recovery mechanism and related terms and conditions.

B. Discount Rate and Cost Recovery

Q. Which uncollectible supply charges for power and energy may a RES sell to ComEd under Rider POU?

A. RESs may sell uncollectible supply charges for power and energy for “residential retail customers and non-residential retail customers with a non-coincident peak demand of less than 400 kilowatts,” as set forth in Section 16-118(e) of the PUA. (See ComEd Ex. 1.1, Sheet No. 415). Further, retail customers supplied by a RES taking service under Rider PORCB - Purchase of Receivables with Consolidated Billing (“Rider PORCB”) are excluded from Rider POU because the purchase of the RES supply charges are purchased as part of Rider PORCB. Therefore, Rider POU is available only to RESs serving customers with demands under 400 kW, including residential customers, through either Rider SBO - Single Bill Option (“Rider SBO”) or dual billing option (where the RES presents their supply charges on their own bill and ComEd presents the delivery services charges on a ComEd bill).

Q. Regarding the cost recovery mechanism itself, what is the discount rate and what costs are recovered through the application of such rate?

A. Consistent with the requirements of Section 16-118(e), Rider POU establishes a two-part discount rate applicable to the supply uncollectible it purchases from RESs, which incorporates (1) a percentage reduction for the recovery of uncollectible costs associated

with the purchased uncollectible that is based on ComEd's historic bad debt rate and (2) a fixed, \$29.18 per account charge for the recovery of administrative costs associated with ComEd's purchase of uncollectibles.

1. Bad Debt Rate

Q. How will ComEd determine the percentage reduction for the recovery of uncollectible costs associated with the purchased uncollectible?

A. After reasonable collection efforts are made, the customer is disconnected for non-payment in accordance with 83 Illinois Administrative Rule 280, and after 30 days have lapsed, the customer account is deemed to be written-off. Once written-off, the customer account goes through another series of collection efforts for 90 days. The bad debt rate applied to Rider POU is based on ComEd's historic recovery levels during this 90-day period.

Q. Why is it appropriate to use the rate for bad debts that are at least 90 days old?

A. The statute requires that the "alternative retail electric supplier, or an electric utility other than the electric utility in whose service area the retail customer is located, has made reasonable collection efforts on that account." Using ComEd's collection efforts timeframe as a proxy to establish the appropriate age of the debt is reasonable in determining the time the RES would have to engage in reasonable collection efforts prior to requesting the utility to purchase their uncollectibles. For example, as shown in steps 2 and 3 of Exhibit 1.3, it takes at least two (2) monthly billing periods for the RES to realize the customer is not paying their RES supply bill and make collection efforts as required by the statute. This is a conservative assumption regarding RES collection efforts; ComEd does not have access to information regarding the actual collection

practices of each RES that may seek to sell uncollectibles to ComEd, which may vary from RES to RES. It is conceivable that it could take even longer than the two (2) months used in this illustrative example.

As shown in step 4 and 5 of Exhibit 1.3, upon completing the collection process, the RES must request to return the customer to utility supply. From the time the RES has requested to return the customer to utility supply to the time the customer actually begins on utility supply, another two (2) bill periods may pass before the RES may seek to sell its uncollectibles under Rider POU. At this point, up to four (4) months of supply charges may be outstanding and at least 90 days have lapsed (*see* step 6 in Exhibit 1.3), as a conservative estimate.

Q. Does Rider POU impose any restrictions on which two months of supply charges that a RES may sell to ComEd?

A. No. The tariff does not designate which monthly supply receivables the RES may sell to the utility. As a result, it is reasonable to expect the RES will sell its two oldest customer debts. It is also conceivable the RES may choose the two highest in dollar value, which may not be the oldest supply receivables. A RES's selection of supply charges to sell may be based on the time of year in which the bad debt is incurred, as the load of customers of this size tends to be weather sensitive.

Q. Does the fact that the monthly supply charges that a RES sells to ComEd may be less than 90 days old suggest that a different bad debt rate should be employed?

A. No. The fact that there will be customer debts outstanding that are at least 90 days old, as discussed previously, is a better indicator of the recoverability of such debts than the

actual age of debts that a RES elects to sell to ComEd. ComEd has no cause to believe that a customer that has not paid a monthly bill that is over 90 days past due will be more likely to pay a bill that is only 60 days overdue, particularly if that billed amount is larger.

Q. Why is there a single bad debt rate for Rider POU?

A. My understanding is that due to the age of the debt, to track the collection efforts on a class basis would be costly and cumbersome not only for ComEd, but also the third- party collection agency(ies) used to perform this service for ComEd. The collection rate of the aged bad debt is so low, to incur any additional administrative costs would result in the recoveries of monies being negated by the cost to track the collection by specific customer classes solely for purposes of Rider POU, thereby exacerbating the bad debt rate overall.

Q. How does ComEd plan to treat the Rider POU receivables not recovered from the former RES customers?

A. The statute “permits the electric utility to recover from retail customers any uncollectable receivables that may arise as a result of the purchase of uncollectible receivables.” Therefore, ComEd will recover any uncollected Rider POU receivables through Rider UF - Uncollectible Factor (“Rider UF”).

Q. How will ComEd treat the difference between the receivables purchased under Rider POU and amounts actually recovered?

A. Any recoveries in excess of the bad debt rate in Rider POU will be tracked back through Rider UF. While I am not an accountant, it is ComEd’s accounting opinion that FERC

Account 904 can be used for Rider POU tracking purposes. In layman's terms, ComEd purchases \$100 in RES supply uncollectible (after application of the \$29.18 administrative fee, discussed further below), at a discount of roughly 97% (rounded for simplicity), or \$3, ComEd will charge \$3 through Account 904 and present Rider POU charges to the customer in the amount of \$100. At my request, Exhibit 1.4 has been prepared to illustrate the accounting entries that will be made to book the purchases made under Rider POU.

Q. How will ComEd treat any uncollectible RES supply charges collected in excess of the discount rate applied?

A. Any monies collected in excess of the price paid for the receivable under Rider POU will be credited back to Rider UF. Using the same layman's example discussed above, if the customer pays \$50 of the \$100 charge, ComEd will credit \$50 to Account 904, which will offset the initial \$3 charge and provide for an additional \$47 in recoveries. In summary the flow through of any over recoveries of bad debt and any recoveries of RES uncollectibles purchased will be through Rider UF.

2. Administrative Costs

Q. What types of start up and administrative costs does ComEd anticipate incurring to provide service under Rider POU?

A. In general, ComEd does not anticipate incurring any start up costs. The expectation is a low volume use of Rider POU; therefore, ComEd is adopting a manual process for Rider POU at this time. Unlike with Rider PORCB, ComEd does not have any cause to expect Rider POU to be used extensively. As previously noted, Rider POU is available only to

RESs using the single bill or dual bill options, which are not expected to be widely used to serve residential customers and non-residential customers with demands under 400 kW. Indeed, these billing options have been available to RESs since the introduction of competition to these customer segments, with no meaningful customer switching to show for it.

With a manual process, ComEd will only incur operating and maintenance (“O&M”) expenses for each account purchased (with up to two (2) monthly billing period’s worth of charges per account) that is related to the processing of the receivable purchase and to place that receivable into our normal bill presentment and collection stream. The expenses include the labor, postage and mailing expenses for the processing, customer notification and billing of the supply charges.

Q. Does ComEd propose any revisions to the \$29.06 administrative charge reflected in its April 21, 2011 tariff filing?

A. Yes. ComEd proposes to revise the \$29.06 reflected in its April 21, 2011 tariff filing to \$29.18, as shown in ComEd Ex. 1.2. This change is a result of an update to the billing labor cost.

Q. How will revenues received from the application of the \$29.18 administrative charge be treated for ratemaking purposes?

A. The revenues will be passed through to ComEd distribution customer. Specifically, revenues derived from the administrative charge portion of the two-part discount rate, will be recorded in Account 451 Miscellaneous Service Revenues, which will lead to a

corresponding reduction of the distribution revenue requirement in ComEd's next general rate case proceeding.

3. Discount Rate Updates

Q. Does ComEd intend to update the Rider POU discount rate annually?

A. No. As shown on Sheet No. 414 of Rider POU (ComEd Ex. 1.1), ComEd has not set a schedule for periodic updates of either the bad debt (0.0295) or the administrative charge (\$29.18) portion of the proposed, two-part discount rate. Again, at this point, ComEd does not have any cause to expect Rider POU to be used extensively -- not enough to warrant the additional administrative burdens of recalculating and refilling changes to the discount rate annually. As proposed, the bad debt portion of the discount rate is based on ComEd's historic bad debt rate, as required by Section 16-118(e), regardless of how frequently it may be updated. Moreover, the Commission has approved fixed rates in similar cases with the stipulation that the discount rate be adjusted in each rate case (*see, e.g.,* Docket No. 08-0619(Cons.), Order at 9). ComEd intends to revisit the discount rate as a part of future distribution rate case filings.

Q. Would ComEd oppose annual updates of the discount rate?

A. No. ComEd has no objection to setting a schedule in the tariff to update the discount rate through an informational filing with Staff each May (with a June 1 effective date). Such updates should be based on the previous year's bad debt experience and known increases in administrative costs (*e.g.,* wage rates for union employees that will be involved in the administration of Rider POU).

C. Terms and Conditions

294 **Q. Does Rider POU impose any restrictions on the uncollectible electric supply and**
295 **energy charges a RES may sell to ComEd?**

296 **A.** Yes. In addition to the statutory limitation of service to customers with demands less
297 than 400 kW, the statute requires the RES to return the customer account back to the
298 utility supply rate, as previously stated, and undertake reasonable collection efforts for
299 the uncollectible supply it sells to the utility. Further, the utility is only required to
300 purchase up to two (2) monthly bill periods of RES supply uncollectibles for each eligible
301 account.

302 **Q. How does ComEd intend to present the Rider POU charges?**

303 **A.** ComEd will present the charges on the customer bill, if the customer is an active
304 customer receiving bills from ComEd. If the customer does not receive their bill from
305 ComEd or the account is not in an active status (*i.e.* in a disconnected, finaled or written-
306 off status), a separate statement from ComEd or ComEd's third-party agency may be
307 employed. (*See* Exhibit 1.1, Sheet No. 203). Further, as part of the manual process,
308 ComEd intends to provide a separate customer notification to describe the Rider POU
309 charges associated with the change in the collecting party.

310 **Q. What are ComEd's General Terms and Conditions?**

311 **A.** ComEd's General Terms and Conditions are tariff provisions generally applicable to all
312 tariffs included in ComEd's Schedule of Rates, to electric service provided by ComEd,
313 and to retail customers located in ComEd's service territory.

314 **Q. What is the purpose of ComEd's proposed modifications to its General Terms and**
315 **Conditions?**

316 A. The purpose of ComEd's proposed modifications to its General Terms and Conditions is
317 to codify the authority granted to ComEd under Section 16-118(e) of the PUA, which
318 allows ComEd to disconnect electric service to participants that default on the payment of
319 charges for the uncollectible receivables that ComEd purchases from RESs and presents
320 to the customer. (*See* Exhibit 1.1, Sheet No. 210). Of course, electric service
321 disconnection will only be undertaken in conformance with the relevant provisions of
322 Part 280 of the Commission's rules (83 Ill. Adm. Code Part 280) and the PUA. These
323 modifications are in accordance with the law and should be approved by the ICC.

324 **Q. Is there any limitation on the supply receivables to be purchased under Rider POU?**

325 A. While ComEd does not expect Rider POU to be used extensively at this time, there is an
326 element of uncertainty surrounding usage levels because Rider POU is a new, nationally
327 unprecedented service offering. Due to the uncertainty of the use of Rider POU, ComEd
328 is imposing a limitation on the number of accounts for which it will purchase
329 uncollectible receivable from a RES. The limitation is 500 customer accounts annually
330 (*i.e.*, up to 1,000 monthly billing periods) with an additional limitation of 125 customer
331 accounts quarterly (*i.e.*, up to 250 monthly billing periods). (*See* Exhibit 1.1, Sheet No.
332 415). The limitation is set forth as a measure to prevent Rider POU from outpacing the
333 capacity of ComEd manual operations.

334 ComEd intends to closely monitor the usage level of this service in an effort to avoid
335 imposing this restriction, to the extent possible, and to determine whether these
336 restrictions need to be modified and whether the manual process developed needs to be
337 revisited.

338 **Q.** **Does this complete your direct testimony?**

339 **A.** Yes